

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

NOTICE OF THE UNITED STATES POSTAL SERVICE  
OF FILING OF RESPONSE OF WITNESS DEGEN TO  
COMMISSION ORDER 1300 REGARDING SPECIAL STANDARD COSTS  
(August 30, 2000)


The United States Postal Service hereby provides the attached response of witness Degen to Commission Order No. 1300 regarding the FY 1999 costs of Special Standard Mail.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Ratemaking

  
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August 30, 2000

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POSTAL RATE COMMISSION  
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Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DEGEN  
TO ORDER NO. 1300

August 30, 2000

Special Standard-Mail Processing  
Analysis of the Increase in Direct Tally Costs, BY98-FY99

Witness Patelunas presented FY99 costs in response to Order No. 1294, and he was questioned about the increase for Standard B Special, particularly about the increase in mail processing costs (Tr. 53/16833). The Postal Service response to the question raised at the hearings indicated that "[t]he increase is due to primarily to an increase in Special Standard direct tallies."<sup>1</sup> The Postal Service response also speculated that the increase may have been due to improved identification of Special Standard direct tallies resulting from improved endorsement. The response also suggested sampling error or underlying cost changes as possible explanations.

My analyses indicates that the increase in Special Standard unit costs is broadly distributed across offices, pay periods, facility types, and costs pools, indicating improved identification or increased costs for which I have no specific explanation at this time. However, a portion of the anomalous cost increase was most likely due to some Standard A Regular tallies being recorded as Special Standard, which may have resulted from the change in marking for Standard A mail from "Bulk Rate" to "Presort Standard." This change will be mandatory beginning in January 10, 2001, but it became optional July 14, 1998 and was widely publicized as part of the January 10, 1999 rate implementation. (See Special Postal Bulletin 21984A, 11-12-98, page 13.)

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<sup>1</sup> Response of the United States Postal Service to Questions Raised at Hearings on August 3, 2000.

We have identified a group of tallies for which the IOCS data collector recorded the subclass as "Special Standard", but for which the only marking recorded was "Standard" or "Bulk." The tallies at issue generally represent pieces weighing less than one pound and many are flat shaped, which are common characteristics of Special Standard pieces. The absence of the word "Bulk" and the presence of "Standard," and the size and shape could have caused the data collector to record the pieces as Special Standard, even though they had been sent at Standard A rates. The small number of tallies makes it difficult to go back and learn anything after the fact from the data collectors because they take hundreds of readings, only one or two of which may be Special Standard.

This analysis has led us to believe that some Standard Mail A was recorded as Special Standard. We are unable to determine the exact extent of the problem. Some of the tallies at issue may, in fact, belong in Special Standard. If the Commission decides to use the FY99 costs, rather than the FY98 costs as proposed by the Postal Service, we recommend removing these tallies from Special Standard for FY99. The result is a reduction of the mail processing unit-cost increase over FY98, from 37 to 20 percent (see Table 6). The analysis we have performed so far is summarized below.

#### Summary of Analysis

- ✓ In FY98 there were 487 direct tallies in 173 offices. For FY99, these numbers were 790 and 230, respectively.

- ✓ The increases in direct mail processing tallies are spread broadly across offices (See Table 1).
- ✓ Nearly all pay periods of FY99 show increases in the number of direct mail processing tallies over FY98. The Increases are larger after pay period 2, when the new rates went into effect (see Table 2).
- ✓ Increases in volumes do not explain the increases in unit costs (see Table 3).
- ✓ The increase in direct tallies was spread across MODS offices (47%), BMCs (33%), and Non-MODS (20%).
- ✓ The increase was spread across cost pools within each of those of facility types (see table 4).
- ✓ Fourteen offices were contacted and possible causes in increased Special Standard tallies were explored. None could be identified.
- ✓ The tallies were analyzed for patterns of endorsement that could provide clues to the cause of the change. We identified a group of tallies coded as "Special Standard" in IOCS question 23b, but which did not show the "Special Standard" marking in question 23c. Rather, these tallies showed the "Standard" or "Bulk" marking in question 23c and no return or forwarding instructions. Over 70 percent of these tallies represent pieces weighing less than one pound and almost 40 percent are flat-shaped (see Table 5).

Table 1  
Special Standard Mail Processing Costs  
Direct Tallies Counts by Frequency per Office  
BY98 - FY 99

Frequency of Tallies	Number of Offices		Number of Tallies	
	BY 98	FY 99	BY 98	FY 99
1	115	140	115	140
2	31	43	62	86
3	7	15	21	45
4	2	4	8	16
5 to 10	7	13	50	83
> 10	11	15	231	420
Total	173	230	487	790

Table 2

Special Standard Mail Processing Cost  
 Direct Tally Counts by Pay Period  
 BY 98 - FY 99

Pay Period	BY 98	FY 99	% Change
20	25	26	4%
21	17	22	26%
22	15	31	73%
23	19	31	49%
24	25	27	8%
25	12	26	77%
26	29	28	-4%
1	10	22	79%
2	18	19	5%
3	21	39	62%
4	16	37	84%
5	12	36	110%
6	27	45	51%
7	23	35	42%
8	19	28	39%
9	25	24	-4%
10	15	32	76%
11	24	40	51%
12	17	30	57%
13	10	26	96%
14	16	25	45%
15	23	29	23%
16	13	31	87%
17	13	30	84%
18	17	40	86%
19	26	31	18%
Total	487	790	48%

Table 3  
Special Standard Volumes  
BY 98 - FY 99

Source	1998	1999	% Change
RPW	191,093	200,404	4.8%
Carrier Cost	111,250	118,882	6.6%
PERMIT	55,660	60,422	8.2%
Single Piece	10,504	12,654	18.6%
Presorted	45,156	47,767	5.6%



Table 4  
Special Standard - Mail Processing Costs  
Direct Tally Dollar Weights (000) by Office Type & Cost Pool  
BY98 - FY99

Pool	BY98	FY99	Change
<u>MODS 1&amp;2 Offices</u>			
manf	845	1,328	484
manp	1,539	1,303	-236
mecparc	70	255	185
spbs Oth	1,252	2,000	748
spbsPrio	63	284	221
fsm	1,577	3,131	1,554
LD43	2,324	3,429	1,106
1Platform	455	1,088	633
1OpPref	377	1,449	1,071
1OpBulk	254	818	564
1Pouching	352	630	278
Other	1,632	2,243	611
Total MODS 1&2	10,740	17,958	7,218
<u>BMCS</u>			
SSM	689	882	193
Allied Oth	3,594	5,500	1,906
PSM	8,101	12,665	4,564
SPB	677	1,589	912
NMO	552	1,565	1,013
Platform	1,351	1,290	-61
Total BMCS	14,964	23,491	8,527
<u>Non-MODS Offices</u>			
Manual	4,112	6,024	1,912
Allied	769	2,213	1,444
Other	213	879	666
Total Non-MODS	5,094	9,117	4,022
Grand Total	30,798	50,565	19,767

Table 5  
Special Standard Mail Processing Cost  
Excluded Direct Tallies by Weight and Shape  
FY 99

	Weight <= 1lb	Weight > 1lb	Total by Shape
Flat	38	6	44
Parcel/IPP	48	27	75
Total by Weight	86	33	

Percentages

	Weight <= 1lb	Weight > 1lb	Total by Shape
Flat	32%	5%	37%
Parcel/IPP	40%	23%	63%
Total by Weight	72%	28%	

Table 6  
Special Standard - Mail Processing Costs  
Proposed Adjustment

	BY98	Original FY99	% Change	Adjusted * FY99	% Change
Mail Proc Cost (\$000)	80,866	116,164	44%	101,562	26%
Volume (000 Pieces)	191,093	200,404	5%	200,404	5%
Unit Cost (cents/pc)	42.3	58.0	37%	50.7	20%

\* Excludes tallies not endorsed "Special Standard" but endorsed "Bulk Rate" or "Standard Presort" with no return endorsement.

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in dark ink, appearing to read "E. P. Koetting", is written over a horizontal line.

Eric P. Koetting

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